

**Department of Children's Services  
For the Year Ended  
June 30, 1997**

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Editor

July 7, 1998

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable George Hattaway, Commissioner  
Department of Children's Services  
Cordell Hull Building, Seventh Floor  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Children's Services for the year ended June 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Children's Services' compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Children's Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Children's Services' management in a separate letter.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/sk  
97/121

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Children's Services**  
For the Year Ended June 30, 1997

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## AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 1996, through June 30, 1997. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1997, and the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of computer programming, trust funds, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## OVERALL ACCOUNTING CONTROLS AND PROCEDURES NEED SIGNIFICANT IMPROVEMENT

As noted in this and previous audits, controls and procedures did not always ensure the proper accounting for and reporting of state and federal funds. The findings listed below illustrate the extent of the problem (page 4).

## MATERIAL INTERNAL CONTROL WEAKNESSES REPORTED IN 1997 TENNESSEE SINGLE AUDIT REPORT

*A material weakness in internal control over compliance is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.*

### **Duplicate Payments of Approximately \$451,000 Made to Vendors\*\***

The department issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1997, vendors voluntarily made over 844 refunds totaling \$369,000 and returned 254 original checks totaling \$82,000 (page 7).

**No Formal Procedures for Identifying and Collecting Overpayments—Outstanding Overpayments of at Least \$1,274,441.12 to Foster Parents and Adoption Assistance Parents and Vendors\***

When the department is notified of an overpayment, subsequent payments to that vendor are reduced to collect the overpayment. However, no procedures are in place to collect the overpayment if subsequent payments are not made or to promptly collect from adoption assistance and foster care parents (page 8).

**Controls Over Disbursements Weak\*\***

The department did not have sufficient controls to ensure that disbursements were properly processed. Problems included lack of supporting documentation, late payments, and insufficient approval (page 12).

**Status Changes for Foster Children Not Processed Promptly\*\***

Caseworkers did not notify Children's Services central office personnel of changes in placement status for foster care children in a timely manner (page 14).

**Insufficient Evidence to Support Compliance With Period-of-Availability Requirements for Social Services Block Grant**

The Department of Children's Services could not provide grant numbers, available amounts, or the amounts expended on each grant to date; therefore, compliance with the period-of-availability requirement could not be sufficiently tested (page 19).

**Computer Programming Duties Not Properly Segregated\*\***

Until the Comprehensive Children's Services Information System is designed and implemented, current programs used by the department will allow a single user to modify the program, manipulate files, enter data, and prepare reports (page 23).

**Appropriate Grants Not Charged at the Time the Initial Transaction Is Recorded and No Written Policies and Procedures for Cash Management Activities**

The department pays expenditures with state dollars and later reallocates the expenditure to the appropriate federal grant rather than coding the transactions to the appropriate grant(s) at the time the initial transaction is recorded. Also, management has not developed written policies for cash management (page 27).

**REPORTABLE CONDITIONS**

*Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.*

**Controls Over the Processing of Medical Payments Inadequate\*\***

Invoices were not reviewed for appropriateness or checked for previous submission prior to payment, and payments to vendors for medical services were not appropriately authorized by a state official. Also, the department billed TennCare for medical expenditures for children who were not eligible to receive TennCare. The seriousness of TennCare's failure to ensure that these billings complied with all federal laws, regulations, and guidelines was reported as a Department of Health material internal control weakness in the 1997 Tennessee Single Audit report. TennCare was administered through the Department of Health in 1997 (page 10).

**Improved Title IV-E Grant Fund Procedures Needed\*\***

The procedures used by Children's Services to determine which payments made on behalf of children can be funded with federal Title IV-E funds need improvement (page 15).

**Journal Vouchers Not Processed Timely\***

The department prepares journal vouchers to record expenditure and revenue transactions between other state agencies and departments. However, the department does not always process these journal vouchers promptly (page 17).

**OTHER AUDIT FINDINGS****Deferred Revenue Not Transferred Timely\***

Some items were not promptly researched and transferred from the deferred revenue account. Six of ten items tested were not transferred to appropriate accounts from 178 to 376 days after receipt. Four of the ten items were received between December 1996 and June 1997, and as of November 1997 had not yet been transferred to the appropriate accounts (page 18).

**Social Security Administration Trust Fund Accounts Not Reconciled With Accounting Records Promptly\*\***

The department has not resolved and corrected the \$1.7 million difference that accumulated between the social security trust fund account balances and STARS from 1987 to 1992. For the last two years, Children's Services has been working on this problem, but as of October 1997, it has not been remedied (page 20).

**Accounting for the Social Security Administration Trust Funds Not Done Monthly for Each Child**

The SSI payments received and the expenses paid by the state for the child are not recorded monthly in each child's trust fund account. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care. In one example, the state used \$3,816 of state funds to pay for current expenses of the child's care, when SSI funds could have been used (page 21).

**Data Integrity and User Accountability Not Ensured With Client Operation and Review System\*\***

Procedures have not been implemented to detect duplicate, incorrect, or invalid data. The ability to add, change, or delete client information is not appropriately limited to ensure only authorized changes are made. Also, periodic password changes are not required to reduce risk of unauthorized access (page 24).

**Children's Services' Disaster Contingency Planning Needs Improvement\*\***

Children's Services does not have a contingency plan to provide continuity of administrative, clerical, and operational functions if its office and related work areas should be damaged or destroyed (page 25).

\* This finding is repeated from the prior audit.

\*\* This finding is repeated from prior audits.

**Audit Report**  
**Department of Children's Services**  
**For the Year Ended June 30, 1997**

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# **Department of Children's Services For the Year Ended June 30, 1997**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Department of Children's Services. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The Department of Children's Services was created by the 1996 Public Acts Chapter 1079 on May 21, 1996. The former Department of Youth Development and the Department of Finance and Administration's Office of Children's Services Administration were combined along with certain functions from the Departments of Human Services and Health concerning the welfare of children.

The mission of the Department of Children's Services is to provide services to children who are unruly, delinquent, dependent, and neglected and to their respective families, as well as to provide services to children who are at imminent risk and in need of services to prevent entry into state custody, who are in state custody pending family reunification or other permanent placement, or who otherwise may require services pursuant to state law. The focus of the services is to preserve the relationship between the child and the family by providing, whenever possible, services in the child's community and by providing the services in a setting which is the least restrictive and yet the most beneficial. For the children it serves, the Department of Children's Services shall strive (1) to protect children from abuse, mistreatment, or neglect; (2) to provide prevention, early intervention, and rehabilitative and educational services; (3) to pursue appropriate and effective behavioral and mental health treatment; and (4) to ensure that health care needs, both preventive and practical, are met. The department works to combat delinquency and other social ills concerning young people and to continuously improve the management and coordination of services for the children and families.

An organization chart of the department is on the following page.

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## **AUDIT SCOPE**

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We have audited the Department of Children's Services for the period July 1, 1996, through June 30, 1997. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1997, and to the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of computer programming, trust funds, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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### **AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT**

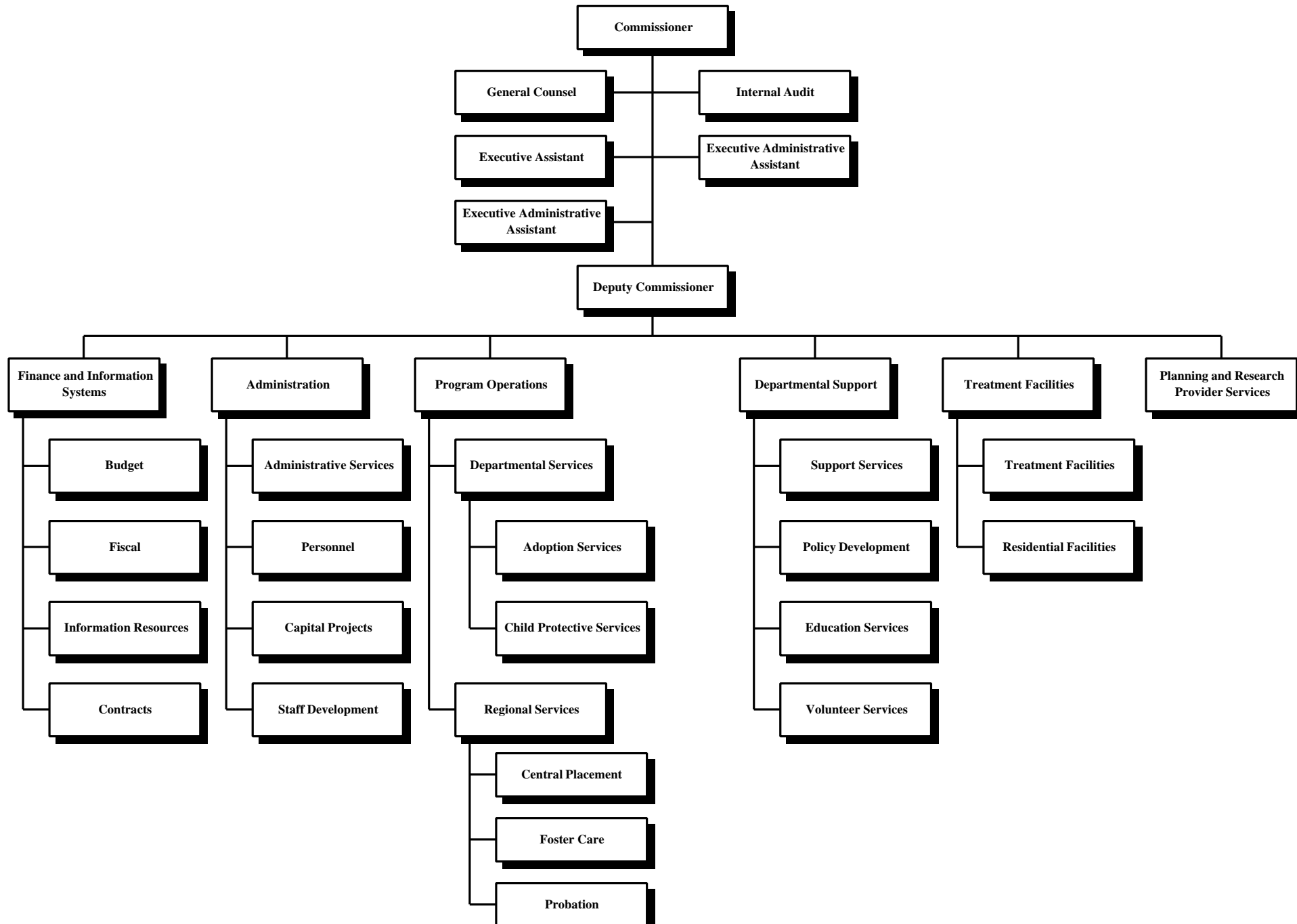
Our audit of the Department of Children's Services is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR), the objective of which is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Children's Services is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act, as amended in 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

# DEPARTMENT OF CHILDREN'S SERVICES

## ORGANIZATION CHART



We determined the following areas within the Department of Children's Services were material to the CAFR and to the Single Audit Report: accounts receivable, contingent and deferred revenue, Social Services Block Grant (SSBG), Foster Care/Adoption Assistance (Title IV-E), Emergency Assistance (Title IV-A), and TennCare. The audit work for TennCare was done as a part of the Department of Health audit.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these areas, we interviewed key department employees. In addition, we performed analytical procedures, reviewed applicable policies and procedures, and tested samples of transactions, as appropriate.

We have issued an unqualified opinion on the general-purpose financial statements of the State of Tennessee in our Independent Auditor's Report dated December 17, 1997, which is included in the CAFR for the year ended June 30, 1997. The Tennessee Single Audit Report for the year ended June 30, 1997, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

We determined that the department's overall accounting controls and procedures need significant improvement, as evidenced by the following: the department made duplicate and overpayments of approximately \$451,000 to vendors; the department lacks formal procedures for identifying and collecting overpayments to foster care and adoption assistance parents; controls over processing medical payments are inadequate; controls over disbursements are weak; status changes for foster children are not processed promptly; procedures related to funding payments with Title IV-E grant funds need improvement; journal vouchers were not processed promptly; revenue should be researched and transferred from deferred revenue in a timely manner; the department does not have written policies for cash management activities and transactions are not coded to the federal grant at the time the initial transaction is recorded; and the department could not provide sufficient evidence that it complies with period of availability requirements for SSBG.

In addition to the findings, other minor weaknesses came to our attention which have been reported to management in a separate letter.

**1. Overall accounting controls and procedures in the Department of Children's Services need significant improvement**

**Finding**

The Department of Children's Services' overall accounting controls and procedures need significant improvement. As noted in previous audits, controls and procedures did not always ensure the proper accounting for and reporting of state and federal funds. The following weaknesses were noted during the audit:

- a. Duplicate payments and overpayments of approximately \$451,000 were made to vendors (finding 2).

- b. The department has no formal procedures to identify and collect overpayments—uncollected overpayments totaling at least \$1,274,441.12 are due from foster care and adoption assistance parents, overpayments to other vendors are not determinable (finding 3).
- c. Controls over the processing of medical payments are inadequate (finding 4).
- d. Controls over disbursements were weak (finding 5).
- e. Status changes for foster children are not processed promptly (finding 6).
- f. Procedures related to funding payments with Title IV-E grant funds were inadequate (finding 7).
- g. The department did not process journal vouchers promptly (finding 8).
- h. Revenue is not researched and transferred from deferred revenue in a timely manner (finding 9).
- i. Children's Services could not provide sufficient evidence to support compliance with the period-of-availability requirements for the Social Services Block Grant (finding 10).
- j. Social Security Administration trust fund accounts do not reconcile with accounting records (finding 11).
- k. The accounting for the Social Security Administration trust funds is not done monthly for each child (finding 12).
- l. Controls over computer programming used for payment processing are not adequate (finding 13).
- m. The Client Operation and Review System does not ensure data integrity and user accountability (finding 14).
- n. Children's Services disaster recovery plan is inadequate (finding 15).
- o. Children's Services does not charge the appropriate grant at the time the initial transaction is recorded, and written policies and procedures have not been developed for cash management activities (finding 16).

Of the findings included in this report, five have been repeated from the last three audit reports, five from the last two, two from the previous audit, and three are new this year. The department did resolve one of the prior 13 findings during this audit period. Because of their

seriousness, seven of the findings in this report will be reported as material weaknesses in internal control in the 1997 Tennessee Single Audit Report.

The department's inability to adequately manage its fiscal operations has resulted in the loss of state funds, the return of improperly used federal funds, and unlimited potential for abuse by vendors.

### **Recommendation**

The Commissioner should ensure that plans of action are developed immediately to implement the recommendations in this report. The Commissioner should determine if the leadership of the Fiscal and Information Systems Division is capable of correcting the many significant problems noted in the department's fiscal operations. The Commissioner and the internal audit unit should frequently monitor the activities of the responsible individuals correcting the problems and determine whether progress is being made. The Commissioner should take appropriate action if the problems are not corrected in accordance with the plans of action.

### **Management's Comment**

We concur that there has been a loss of state funds, the return of improperly used federal funds, and some abuse by vendors. However, from May 21, 1996, when the department was formed, to approximately January 1998, the main focus for the fiscal division has been hiring the necessary staff and structuring a functional fiscal division to accommodate the changes resulting from the new organization. The fiscal problems the department inherited from previous years and departments could not be addressed due to the pressures of restructuring.

At this time the fiscal division, in cooperation with internal audit, is flowcharting all types of fiscal transactions which are processed. With this procedure, weaknesses can be identified and modifications can be made to processes in order to correct problem areas. Some controls have already been implemented related to residential vendor monitoring. The correction of all problem areas noted in this audit report will be addressed by the department as quickly as possible.

The information obtained by the flowcharting process will indicate to the Commissioner staffing changes necessary to improve the functionality of the division.

In addition, the formation of an internal audit division in the department will result in monitoring of the fiscal division's operations to determine areas which are not adequately improving.

**2. Duplicate payments and overpayments of approximately \$451,000 were made to vendors**

**Finding**

As noted in three previous audits, the Department of Children's Services (Children's Services) issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1997, vendors voluntarily made over 844 refunds totaling approximately \$369,000 and returned 254 original checks totaling approximately \$82,000. The total dollar amount of duplicate payments and overpayments is significantly lower than the total in prior findings. However, the total number of vendor refunds and returned original checks did not decrease, suggesting the significant decrease in the total dollar amount was not due to the implementation of good internal controls. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1997 Tennessee Single Audit report.

The duplicate invoices for goods or services could not be explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child (e.g., caseworkers and community services agency Assessment and Care Coordination Teams) may have each submitted the claim unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

**Recommendation**

The Assistant Commissioner of Fiscal and Information Systems should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

**Management's Comment**

We concur. In May 1997 computer system edit changes were made to the residential, prevention and wraparound programs to check for duplicate payments. In addition, these programs have now been rewritten to create a single claim form and computer operating system. Plans are being developed to incorporate the medical payment program into the standard claim program during fiscal year 1998-99.

The accounting and receivable staff will be providing fiscal management detailed information indicating the reasons why the original checks and the refunds are being returned to



the department. Fiscal management will be able to determine in what areas additional emphasis should be placed to address problems.

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**3. The department has no formal procedures to identify and collect overpayments—  
uncollected overpayments totaling at least \$1,274,441.12 are due from foster care and  
adoption assistance parents, and overpayments to other vendors are not determinable**

**Finding**

As noted in three previous audits, Children's Services still has no formal procedures for identifying and collecting overpayments to foster care and adoption assistance parents and to vendors. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1997 Tennessee Single Audit report.

Throughout the audit period, Children's Services overpaid foster care and adoption assistance parents. As of August 1997, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,274,441.12, an increase of \$469,343.50 since December 1996. Although, approximately \$300,000 of this amount is for current foster care and adoption assistance to parents who still receive monthly payments, the department has not reduced subsequent payments to the parents to collect the overpayments. In addition, there is nothing on the remittance advice informing the foster care or adoption assistance parent of the accounts receivable balance and when and to whom it should be remitted.

Some procedures have been implemented to help identify overpayments to foster parents. When a child is removed from a foster home, the Department of Children's Services' caseworker is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the caseworker enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or caseworker of the overpayment. However, as noted in finding 6, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

In addition to parents, vendors were also overpaid (see finding 2). Many of these overpayments were collected only because the vendor returned the original check or sent a refund to the state, not because the department's system detected these overpayments. The department's method of collecting identified overpayments is to reduce subsequent payments to the vendor until the balance is recovered. However, if the vendor does not receive subsequent payments, the department has no procedures in place to collect the overpayments. The accounts receivable balance for overpayments made to vendors could not be determined because complete information was not available from Children's Services' computer systems.

## **Recommendation**

The Assistant Commissioner for Fiscal and Information Systems should determine the accounts receivable due from all vendors. The commissioner should develop adequate collection procedures and determine how the collection of outstanding balances resulting from overpayments to foster care and adoption assistance parents will be pursued. The Commissioner should add a clause to foster care contracts clarifying the foster parents' responsibility to immediately notify the department and to immediately return the checks if any overpayments are received.

## **Management's Comment**

We concur. In the Fall of 1997 letters were sent to about 1,000 former foster care parents who were overpaid \$565,000 in the CITS foster care parents payment system. This system ended in early 1995 and the accounts receivable in the system were not transferred to ChipFins when it became operational in early 1995.

The CITS foster parents were notified that our records showed they have an accounts receivable balance. We asked them to share information with us if they did not agree with this overpayment on our records. If they agreed with the overpayment, they were asked to send us a check for the amount of the overpayment or agree to a repayment plan. Fiscal and Information Resources staff were able to generate a report from the CITS system showing the source of the overpayment by child for each foster care parent who had a CITS accounts receivable balance. Over 400 letters from CITS foster parents requesting more information were sent to fiscal which have been researched, answered or referred to program staff, where appropriate. As of May 28, 1998, 12 have agreed to repay \$7,129.62; 104 have repaid their full balance of \$24,790.51; 22 have made partial payments of \$16,051.44; 18 have set up a payment plan to repay \$14,079.33; 15 submitted information supporting adjustments of \$5,710.94 and 19 submitted information supporting partial adjustments of \$12,309.15. Work on this project is ongoing.

A DCS policy on overpayments made to DCS adoption assistance parents was drafted and approved this year. An amendment to the IV-E plan was sent to the Atlanta regional office which would permit the department to recover overpayments from adoption assistance parents without first having their written approval. The ChipFins system does not have the capability of generating a report from the ChipFins system showing the source of overpayment by child for each foster care or adoption assistance parent who has a ChipFins account receivable balance. That information will have to be compiled manually on a case-by-case basis by two payables staff with ChipFins experience. They will begin with adoption assistance parents with large account receivable balances. As those statements are prepared they will be sent to the adoption assistance parents with a letter advising them of their account receivable balance and giving them a specified time to respond to us. Fiscal staff will begin withholding a portion of the adoption assistance payments to recover the overpayment.

Effective July 1, 1998 the ChipFins program will withhold 50% of the foster care payment for a current ChipFins foster parent with a ChipFins accounts receivable balance.

The remittance advice has been modified. The remittance advice now shows the current balance due and gives an address where correspondence should be sent and a telephone number.

In the Spring of 1997 fiscal staff began giving a monthly report to program staff that shows the DCS foster care home placements on a county basis. Each region is responsible for verifying that report and sending any corrections to program and fiscal staff. There is a central office program staff employee assigned to oversee this process. During late 1997 and early 1998, residential case managers for DCS foster children were trained on entering information themselves directly into ChipFins rather than have another employee key the information.

Information about overpayments is being sent to receivables staff. The receivables staff are responsible for notifying the vendor of the overpayment and monitoring the status of accounts receivable.

Foster care contracts will be amended to include a clause clarifying foster parents responsibilities to notify the department and to return checks when there is an overpayment. This information will also be added to the foster parent handbook.

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#### **4. Controls over the processing of medical payments are inadequate**

##### **Finding**

As noted in the three previous audits, Children's Services did not adequately review invoices for appropriateness, and payments to vendors for medical services were not appropriately authorized by a state official.

Twenty-four of 40 claim forms for medical expenditures tested (60%) were not approved for payment by a state official or a recipient, and 25 of the 40 medical expenditures tested (62.5%) did not contain certification that services had been provided. The only signature on an invoice was generally that of the physician, counselor, clinic, or hospital providing the service.

The federal government will reimburse payments made on behalf of children who are eligible for Medicaid/TennCare. Before TennCare was implemented, invoices received from Medicaid providers were normally subjected to various computer edit checks such as eligibility, rate, and provider authorization prior to payment. However, the medical invoices for which Children's Services requested reimbursement from TennCare were not subjected to these edit checks. The seriousness of TennCare's failure to ensure that these billings complied with all federal laws, regulations, and guidelines will be reported as a Department of Health material internal control weakness in the 1997 Tennessee Single Audit report.

For example, from our samples, we noted that the department requested and received reimbursement from TennCare for medical expenditures on behalf of two children who were not eligible for TennCare because they were in locked facilities. According to *Code of Federal Regulations*, Title 42, Section 435, Subsections 1008 and 1009, delinquent children who are placed in correctional facilities or a facility operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. (The state, not the federal government, is responsible for the health care cost of adult and juvenile inmates in public institutions.) According to the review of the medical expenditures, the department billed TennCare for all medical expenditures incurred on behalf of children in locked facilities. Although the exact amount of unallowable medical expenditures billed to TennCare was not available, the amount did not exceed the approximately \$673,000 “non-contract” medical expenditures billed to TennCare during the audit period. The department is working to determine the exact amount of unallowable costs to be returned to TennCare.

If internal controls are in place to ensure that only appropriately supported and authorized payments are processed, Children’s Services can better prevent payments to vendors for ineligible children or for services never provided.

### **Recommendation**

Management of the department should require an independent verification by a parent, legal guardian, or caseworker stating that a child received medical services before invoices are paid. Children’s Services fiscal office staff or knowledgeable program staff should review and approve invoices prior to payment to determine if the child receiving the services is eligible to receive assistance from the state.

### **Management’s Comment**

We concur. Effective October 1, 1996, medical services claims were required to be accompanied by a Medical Services Form for Certain Non TennCare Children. Included on that form is a section indicating why the medical service was needed and why the child is not TennCare eligible. There are also sections for signatures of the department’s case manager and the departmental approving supervisor. In the Spring of 1997 a central office eligibility counselor began determining why a child is non TennCare eligible and if there are trust funds available before a claim form is approved for payment. Certain vendors with dates of service through September 30, 1996, were not required to use this approval form. In addition, there were four providers who were contracted to serve certain medically fragile children who were not in state custody and who were not case managed by departmental staff. The terms of the contracts with those four providers did not require the type of documentation contained on the medical services form. The four contracts ended on December 31, 1997.

Procedures are in place to identify and separate medical expenses for children in locked facilities (youth development centers) from those that are billed to TennCare. Those medical expenses for children in youth development centers are currently not billed to TennCare.

Receivables staff are now reviewing medical expenditures for children in locked facilities for the 1997 fiscal year. All four of the youth development centers were asked to send copies of their medical invoices - a total of 682 invoices have been received to date. Receivables staff will have to examine a percentage of medical expenditures to ensure that all 1997 fiscal year invoices from the youth development centers have been received. Additional requests will be made as needed until it can be determined that copies of all medical invoices for fiscal year 1997 have been received. Work will be on-going to determine the exact amount of unallowable costs to be returned to TennCare.

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## **5. Controls over disbursements were weak**

### **Finding**

As noted in three previous audits, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Problems included lack of supporting documentation, late payments, and insufficient approval. Examples are described below:

- Lack of Supporting Documentation - Because Children's Services elected not to maintain copies of residential placement and termination forms, staff could not verify the allowability of payments made on behalf of children in residential facilities. We did, however, find all the forms at the community services agencies.
- Late Payments - Twenty-two of 177 payments tested (12%) were not processed timely. The payments ranged from four to 60 days late. Sixteen of 177 payments tested (9%) were not date-stamped when received; therefore, it could not be determined if the payments were timely. Section 12-4-703, *Tennessee Code Annotated*, states:

An agency which acquires property or services pursuant to a contract with a business shall pay for each completed delivered item of property or service in accordance with the provisions of the contract between the business and agency or, if no date or other provision for payment is specified by contract, within forty-five (45) days after receipt of the invoice covering the delivered items for services.

- Insufficient Approval - A caseworker or other knowledgeable party did not verify that goods or services had been provided to children before payments were made. Because

of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1997 Tennessee Single Audit report. For the Title IV-E federal program, the receipt of goods or services for 14 of 19 applicable expenditures tested (74%) was not verified, and 13 of 60 expenditures tested (22%) were not properly approved or authorized. For the Title IV-A federal program, the receipt of goods and services for 48 of 60 expenditures tested (80%) was not verified, and 46 of 60 expenditures tested (77%) were not properly approved or authorized. For the Social Services Block Grant, nine of nine applicable expenditures tested (100%) had no verification of receipt, and nine of 60 expenditures tested (15%) were not properly approved or authorized.

Effective internal controls are essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized, supported, and processed. Management's responsibility for establishing effective internal controls includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for unallowable or unreasonable goods and services.

### **Recommendation**

Children's Services' fiscal director should take appropriate measures to strengthen the controls over the processing of disbursements. Supporting documentation should be examined before payments are made to determine if the goods or services were received and allowable under contract terms or state guidelines. The fiscal director should also ensure that proper approvals are obtained to minimize the likelihood of mistakes in processing transactions. Also, documentation should be maintained for all transactions processed, and payments should be issued timely. The internal audit unit should review the department's payment process to determine what changes need to be made to ensure timely payments and should monitor the department's timeliness in processing payments.

### **Management's Comment**

We concur. Regional residential and detention approvers began approving all residential and detention claims beginning April, 1998. Instead of maintaining copies of the residential placement and termination forms in the fiscal office, the regional residential and detention approvers are responsible for verifying that the children are at the facilities on the dates billed and that the children are the responsibility of the department.

In the payables section, accountants are responsible for monitoring the payment status for the various types of payments. Supervisory staff are to be notified if certain payment types are delayed so appropriate action can be taken. All invoices are required to be date stamped by the fiscal mail clerk. Payables pre-audit staff have been instructed to verify that invoices are date

stamped. Staff will be assigned to ensure there is a review process before payments are processed and issued. Supervisory reviews are also to be conducted to ensure standard processing procedures are followed. Staff have also been informed of the importance of knowing the location of documentation for all transactions processed.

As part of the 1997 Financial Integrity Review, a list of all contracts with no approval on the invoices or claims was prepared. Senior management have agreed to designate staff to identify DCS employees who will approve those claims and invoices before they are submitted to fiscal.

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## **6. Status changes for foster children are not processed promptly**

### **Finding**

As noted in three previous audits, status changes for foster children are not processed promptly, resulting in overpayments. Because of the seriousness of this weakness in internal controls, it will be reported as a material weakness in the 1997 Tennessee Single Audit report.

The Children's Plan Financial Information System (ChipFins) database is updated by the department's caseworkers in the field when a child's foster care placement changes. However, if caseworkers do not enter the changes in placement in ChipFins before the next benefit payment cutoff date, they must submit change-in-status forms to the central office to correct the overpayment or underpayment to foster care parents. Eleven change-in-status forms reviewed related to \$12,751.98 in overpayments to foster parents, and six forms reviewed related to \$1,451.91 in underpayments. Children's Services had not collected \$11,537.20 of the overpayments but has paid the foster parents the remainder due them.

In addition, if a caseworker does not enter the change of placement, payments will continue to be made to the foster parents. If the change is not made and the central office becomes aware that an overpayment has been made, the central office requests a change-of-status form from the caseworker (see finding 3).

### **Recommendation**

The Assistant Commissioner for Program Operations should develop procedures to ensure caseworkers enter child placement information in ChipFins before the next benefit payment cutoff date. Controls should be included in the new TN KIDS computer system to prevent two different parties from receiving payments for the same child. Management should frequently monitor department personnel's compliance with those procedures to ensure that they are fully implemented.

## Management's Comment

We concur. This year fundamental changes have been made in the entry of ChipFins data. In the past a case manager completed a form and gave the form to a data staff person to enter into ChipFins. Determining where delays took place in getting the information into ChipFins and determining how incorrect information was entered was difficult. Effective April 22, 1998, case managers became totally responsible for all of their ChipFins entries. This was after a process of statewide training of case managers. The case managers are assigned to specific foster homes and they are responsible for each child in the assigned foster homes.

Payables staff now prepare a monthly summary report of ChipFins adjustment forms received in payables for that month. The report is provided to central program staff and sent to the Regional Administrators. The summary report contains the timeliness of data entries as well as the dollar amount of the adjustments. The report is a primary tool for managers to use in identifying problem areas. Regional Administrators can use this information to identify the case manager making a late entry and the particular foster home. If it is determined there are numerous adjustments for a case manager, it will indicate corrective action is necessary and should be addressed by the appropriate manager.

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### 7. **Procedures related to funding payments with Title IV-E grant funds need improvement**

#### Finding

As noted in two previous audits, Children's Services needs to improve procedures used to determine which payments made on behalf of children in state custody can be funded with federal Title IV-E Foster Care funds.

Children's Services purchases goods and services (such as room and board, clothing, and medical treatment) for these children. Payments are initially funded with state funds but are later reallocated to various federal programs when staff verify the expenditures were made for eligible children. However, reallocations have not been timely. (See finding 15.)

A child's eligibility for the Title IV-E program is determined by a Child Welfare Benefits Counselor stationed at a regional community services agency (CSA) office. When a child is brought into the state's custody through a CSA, the counselor completes an Eligibility/Reimbursability form (FA-0846) which is submitted to Children's Services. This form contains general information about the child (such as name, social security number, date of birth), the child's legal status, the child's eligibility for Title IV-E, and the child's reimbursability for Title IV-E (which is determined each month). The child's eligibility is redetermined every six months, and an updated form is sent to Children's Services indicating which of the prior six months the child was eligible.



Once Children's Services receives the eligibility information, it is keyed into an eligibility file. However, this eligibility file is not necessarily accurate (possibly because of keying errors). Therefore, errors in eligibility and reimbursability status occur. Of the 59 expenditures tested that were funded with Title IV-E funds, three expenditures (5.08%) were paid on behalf of children ineligible for the Title IV-E funds. Also, two expenditures were paid on behalf of children who were not reimbursable under the program during the time the expenditure was incurred. These payments, totaling \$5,237.66, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1997. As of October 22, 1997, ChipFins had not been corrected and continued to show all five children eligible and reimbursable during the period the expenditures were incurred.

### **Recommendation**

The fiscal director of Children's Services should ensure that the eligibility/reimbursability status of a child on ChipFins is consistent with the information in the case files and that federal drawdowns are adjusted for any inappropriately funded payments.

### **Management's Comment**

We concur. The cases cited in the audit finding have been corrected in the ChipFins IV-E on-line system to reflect the information in the child's IV-E case file. The automated ChipFins IV-E on-line system became operational on March 1, 1997. Child Welfare Benefits Counselors (CWBC's) began keying the child's IV-E status directly into ChipFins after completing and filing the appropriate IV-E forms in the child's case file. The current caseload is to be keyed into the ChipFins IV-E on-line system by the end of this fiscal year. The child's IV-E status is available to the Fiscal Section through the ChipFins IV-E on-line system.

At each child's IV-E redetermination, the Child Welfare Benefits Counselors (CWBC's) are required to update the ChipFins IV-E on-line system so that the ChipFins data will correspond to information in the IV-E case files. As stated earlier, the child IV-E data is keyed into the ChipFins IV-E on-line system by Child Welfare Benefits Counselors (CWBC's) who are knowledgeable about the child's IV-E eligible and/or reimbursable status as well as Title IV-E policy.

All Child Welfare Benefits Counselors (CWBC's) and benefits supervisors receive training on the use of the ChipFins IV-E on-line system. In addition, there is a ChipFins IV-E On-line Manual available for on-going review. Benefits supervisors are to regularly review IV-E case files and are to monitor the IV-E data being entered into the ChipFins IV-E on-line system by the Child Welfare Benefits Counselors (CWBC's). This is to ensure the data in the ChipFins IV-E on-line system and the information in the counselor's case files is accurate and consistent.

The payments totaling \$5,237.66 for children who were not IV-E reimbursable will be adjusted on the next IV-E-12 federal report for the quarter ending June 30, 1998. This adjustment process has been approved by the federal regional staff.

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**8. The department did not process journal vouchers promptly**

**Finding**

As noted in the prior audit, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly. According to the Department of Finance and Administration's Policy 18, "Journal Voucher - Type J", expenditure (paying) journal vouchers which total \$2,500.01 to \$350,000.00 should be processed within five working days of the receipt of the journal voucher. Revenue (billing) journal vouchers totaling \$2,500.01 to \$350,000.00 should be processed at least monthly, and those over \$350,000.00, within five working days after the expense/expenditure is incurred. However, nine of 13 revenue transactions (69%) on six journal vouchers examined were not processed in accordance with Policy 18. One of the journal vouchers containing two of the 13 revenue transactions (15%) did not have a stamp indicating when the department received the journal voucher; therefore, compliance with Policy 18 could not be determined. Also, two of six expenditure transactions on one journal voucher examined (33%) were not processed in accordance with Policy 18.

If revenue and expenditure journal vouchers are not processed promptly, the accounting records for the affected departments could be misstated. Also, failure to process journal vouchers in compliance with Policy 18 could affect the state's compliance with the federal Cash Management Improvement Act of 1990.

**Recommendation**

The fiscal director should establish procedures to ensure that journal vouchers are processed in accordance with the time requirements of the Department of Finance and Administration's Policy 18. The procedures should also provide for regular monitoring of journal voucher processing. Corrective action should be taken whenever the time requirements are not met.

**Management's Comment**

We concur. Procedures will be developed to ensure that journal vouchers are processed in accordance with the time requirements of the Department of Finance and Administration's Policy 18. Accounting staff are to maintain detailed information on the status of all "J" type journal vouchers. The accounting staff are now reviewing journal vouchers to make sure they are all date

stamped by the fiscal mail clerk. The Director of Fiscal Services is to be promptly informed if there are instances when journal vouchers will not be processed in accordance with the Policy 18 time requirements. Appropriate follow-up actions will be taken by the Director. The department's internal audit staff will be monitoring for compliance with the Department of Finance and Administration's Policy 18 as part of their monitoring of the fiscal section's operations.

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**9. Revenue is not researched and transferred from deferred revenue in a timely manner**

**Finding**

As noted in the prior audit, the department's controls over the processing of deferred revenue do not ensure timely research and transfer of funds to the appropriate accounts. When some cash receipts are received, they are initially recorded in deferred revenue and noted as "need to research" or some other similar notation. Children's Services personnel must then identify the purpose of the receipt and determine the proper accounting.

However, the department is not researching and transferring these funds from deferred revenue in a timely manner. Of the ten "need to research" items tested, none were researched and transferred in a timely manner. Six of the ten items tested were not transferred to the appropriate accounts until 178 to 376 days after receipt. Four of the ten items tested were received between December 1996 and June 1997 and as of November 1997 had not yet been identified and transferred to the appropriate accounts.

**Recommendation**

The Fiscal Director should develop and implement procedures and controls to ensure that deferred revenue is researched and transferred to the appropriate accounts in a timely manner. Management should monitor the research and transfer activities to ensure they are timely and take corrective action if they are not.

**Management's Comment**

We concur. All deferred revenue items have been identified and transferred to appropriate accounts. The receivables staff does not place revenue items in deferred revenue unless there is a need for them to obtain additional information for identification purposes. The deferred revenue identification process is to be completed by receivables staff within thirty days. Once the deferred revenue item has been identified and the certificate of deposit processed, funds are transferred to appropriate accounts by receivables staff. The STARS download is researched every three weeks

by receivables staff to confirm that funds have been transferred. There are currently no items in deferred revenue.

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**10. Children's Services could not provide sufficient evidence to support compliance with the period-of-availability requirements for the Social Services Block Grant (SSBG)**

**Finding**

Information was not available to determine if funds allotted for the fiscal year were expended in the same or succeeding fiscal year, as required by the period-of-availability compliance requirement for the Social Services Block Grant (SSBG). The Department of Children's Services could not provide grant numbers, available grant amounts, or the amounts expended on each grant to date to ensure compliance with period-of-availability requirements for SSBG; therefore, the period-of-availability compliance requirement could not be tested. Because of its seriousness, the department's failure to ensure compliance will be reported as a material weakness in internal controls in the 1997 Tennessee Single Audit report. As of December 3, 1997, the information still had not been provided.

**Recommendation**

The fiscal director should ensure that adequate records are maintained and compliance with period of availability requirements for SSBG is sufficiently documented.

**Management's Comment**

We concur. A letter has been sent to the Director of Fiscal Services and the Director of Budget in the Department of Human Services requesting the total grant award for each period July 1, 1991 through the present; the grant numbers for each grant award; and the dollar amount allocated to Children's Services. This data will supply fiscal staff the information needed to maintain adequate records and ensure there is sufficient documentation to comply with period of availability requirements for SSBG.

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**TRUST FUNDS**

Our objectives in reviewing trust fund controls and procedures were to determine whether

- the department upheld its fiduciary duty to properly administer and account for student funds by ensuring expenditures were properly supported with student approvals where

necessary, specific-purpose account expenditures were made for allowable purposes, and transactions were properly recorded;

- trust fund bank accounts were reconciled each month and the reconciliations were adequately supported;
- the department's collateralization procedures were adequate; and
- interest earned on student trust funds was reasonable and was appropriately distributed or spent according to department policies.

We interviewed key department personnel to gain an understanding of the department's procedures for and controls over student trust fund transactions. We reviewed supporting documentation and tested samples of trust fund transactions.

We determined that the Social Security Administration (SSA) trust fund accounts were not reconciled with accounting records promptly and that the accounting for these trust funds is not done monthly for each child.

#### **11. Social Security Administration trust fund accounts do not reconcile with accounting records**

##### **Finding**

Children's Services receives the Social Security Administration (SSA) and Supplemental Security Income (SSI) benefits on behalf of children in state custody. These funds are held in trust for the children and are used to supplement the cost of caring for them. These funds are accounted for by recording payments received in the individual trust fund account for each child.

As noted in two previous audits of Children's Services, the total of the individual trust fund accounts is approximately \$1.7 million less than the balance on STARS. When the Children's Plan was formed in 1992, the individual trust fund records were transferred from the Department of Human Services (DHS) to the Office of Children's Services Administration, then located in the Department of Finance and Administration. When the DHS records were reconciled at June 30, 1992, the total of the individual trust fund accounts was approximately \$1 million less than the balance on STARS.

For the last three years, Children's Services has been entering the old manual DHS trust fund records into a computer data base. The data base should aide them in resolving the \$1.7 million difference and the lack of any interest that should have been credited to each child's account. However, this process had not been completed as of October 1997. The expected completion date is June 30, 1998.

## **Recommendation**

The Assistant Commissioner for Fiscal and Information Systems should ensure that the conversion of the records is completed promptly and that the \$1.7 million difference between the individual trust fund accounts and STARS is resolved and corrected.

## **Management's Comment**

We concur. When this project was first established, Children's Services and the Department of Finance and Administration worked together to develop a process to restate the Department of Human Services' records from 1987-1992. The project was started in 1995 under the supervision of the Department of Finance and Administration. Children's Services took over the supervision in February, 1996. No one knew how long the project would take because no one knew how to estimate the analysis time that would be involved for each of the 6,062 children's records.

Children's Services chose to contract for temporary services for the project because of the backlog of records while needing to maintain current trust accounting workload with state employees. A departmental fiscal employee supervises the project. It takes staff at least a week to explain the basics of the project, the ledgers and the computer system to each new temporary employee. Training is never completed because each of the children's records is unique and requires a new explanation for each circumstance.

The project is moving forward and nearing completion. All the children's records from 1987-1992 should be restated this summer. Fiscal staff and legal staff are meeting regularly to discuss the project and determine actions that will be taken. Actions taken to complete the project will also include the reconciliation of the trust fund accounts balances and STARS.

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### **12. The accounting for the Social Security Administration trust funds is not done monthly for each child**

## **Finding**

Children's Services receives the Supplemental Security Income (SSI) benefits on behalf of children in state custody. These funds are held in trust for the children and can be used by the state to pay for "current and future" care of the child if the balance in the child's account (the child's available resources) does not exceed \$2,000. When a child's account balance exceeds \$2,000, any subsequent SSI payments are required to be returned to the Social Security Administration (SSA).

The SSI payments received and the expenses paid by the state for the care of the child are not recorded monthly in each child's trust fund account. Instead, the department prepares a Statement of Accounts every 12 months for each child, showing the SSI payments received, expenses made for a child's care, and the cumulative monthly balance. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care. For example, the department returned \$7,048.74 for one child to SSA in June 1997 for SSI funds received after the child's account balance exceeded \$2,000. However, the department incurred expenses for the child's care that could have been offset by \$3,816 of the SSI funds if the department had maintained the account monthly. Therefore, the state used \$3,816 of state funds when SSI funds could have been used.

### **Recommendation**

The department should record receipts and expenses to each child's trust fund account monthly. This procedure could be included in the development of the new Comprehensive Children's Services Information System (TN KIDS). Also, each month the department should review the account of each child receiving SSI payments to ensure that the state uses available SSI funds, instead of state funds, to pay for the child's care. This review could save the state from unnecessarily using state funds, and this savings could pay for the additional staff necessary to perform the monthly review.

### **Management's Comment**

We concur. We agree that recording receipts and expenses to each child's trust fund account on a monthly basis and using available SSI funds on a monthly basis is desirable. With the limited staffing in trust and the current computer program resources, this procedure would be very difficult to implement now. We agree that this procedure should be included in the comprehensive financial management component of TN KIDS. A request has been submitted to automate the trust accounting process and this request will receive a high priority as the department sets its computer needs for this next fiscal year. At this time the fiscal section, in cooperation with internal audit, is flowcharting all types of fiscal transactions including the accounting for trust funds. The information obtained from the flowcharting process will indicate to the Commissioner staffing changes necessary to improve the functionality of the fiscal section.

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### **COMPUTER PROGRAMMING**

Our review of computer programming included a follow-up to determine whether prior audit findings had been resolved. The objective of this review was to determine the controls over various computer programs used by the department to accumulate information regarding children served and payments made for children.

We determined that controls over computer programming and payment processing were not adequate, that the Client Operation and Review System did not ensure data integrity and user accountability, and that the department's disaster contingency planning needs improvement.

### **13. Controls over computer programming used for payment processing are not adequate**

#### **Finding**

As noted in the prior two audits, computer programming controls associated with the payment system are not adequate. Management concurred and stated that a new system would be designed and implemented to establish adequate controls.

The design and implementation of the Comprehensive Children's Services Information System were started January 17, 1997, and were initially estimated to be completed April 1998. The expected implementation date was changed from April 1998 to August 1998 and has now been scheduled for implementation in December 1998. Until the new system is designed and implemented, programs written using dBase or Foxpro software will continue to allow a single user to modify the program, manipulate files, enter data, and prepare reports. Because of the seriousness of these inadequate computer controls, a material weakness in internal controls will be reported in the 1997 Tennessee Single Audit report.

Inadequate controls over computer programming used for payment processing decrease the probability that errors or irregularities will be identified in a timely manner and increase the risk that employees will be able to inappropriately manipulate data.

#### **Recommendation**

The Assistant Commissioner for Fiscal and Information Systems should ensure controls over computer programs used for payment processing are adequate. Also, the Commissioner should continue to work with the Office for Information Resources to ensure the design and implementation deadlines for the Comprehensive Children's Services Information System are met.

#### **Management's Comment**

We concur. The department is developing the TN KIDS system to support all major DCS functions, including a comprehensive financial management system. The first phase, scheduled for implementation starting in December of this year, will provide the department with a single, unduplicated child database which will be the foundation for all other functionality. This database will provide for an interface with the current payment process. TN KIDS implementation issues will be addressed by the newly formed TN KIDS Field Implementation Team, which includes a representative from the Fiscal section. Complete integration of this function in TN KIDS will follow as directed by the department's Management Advisory Committee (MAC). In the



meantime, Information Resources and Fiscal staff have developed a Standard Claims Invoice system which has improved both the process and controls for the payment of the residential, prevention and wraparound type claims. The department will continue to use ChipFins for the payment of foster care and adoption assistance.

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**14. The Client Operation and Review System does not ensure data integrity and user accountability**

**Finding**

As noted in two previous audits, the Client Operation and Review System (CORS) records the profiles of children in state custody and matches these with the facilities providing care. CORS monitors the status of children and identifies those who need to be reassigned to other facilities. In addition, CORS is the largest source of information for the Children's Plan Financial Information System (ChipFins). Our review of CORS revealed the following weaknesses continue:

- A client's record can be created on the system multiple times because the system does not check for duplicate entries. Also, each new entry to CORS, even duplicate entries, results in a matching new entry to ChipFins.
- Although access was generally limited to community services agencies (CSAs), any user at that CSA could add, change, or delete clients or information on clients.
- The adding, changing, or deleting of information was not logged. Therefore, identifying which user had added, changed, or deleted a record was impossible.
- Users of CORS were not required to change their passwords periodically, increasing the risk of unauthorized access to the system.

These weaknesses lessen the department's assurance concerning data integrity and user accountability. Effective management controls require procedures to prevent duplication of data and to reduce the risk of incorrect or invalid data. One effective step would be to include edits in the new TN KIDS computer system to detect duplicate payments and incorrect or invalid data. In addition, these management controls require appropriate access restrictions to client records and an audit trail of changes to client information. Also, periodic password changes decrease the risk of unauthorized access to the system.

### **Recommendation**

The Director of Information Systems should, in consultation with the Office for Information Resources, ensure that the new TN KIDS computer system has the following capabilities:

- Detects duplicate or invalid data
- Permits only authorized users to add, change, or delete client information
- Provides a system log to record user activity and serve as an audit trail

In addition, the new system should require periodic password changes to reduce the risk of unauthorized access. The Assistant Commissioner for Fiscal and Information Systems should monitor the implementation of the new system to ensure that the above controls are built into the system.

### **Management's Comment**

We concur. The Client Operation and Review System will be replaced with the implementation of TN KIDS, starting in December of this year. The TN KIDS design will incorporate edits using state-of-the-art software to help detect the possibility of duplicate or invalid data, but no system can absolutely detect all data problems. User training and quality assurance mechanisms will also help address these issues. TN KIDS will allow the control of authorized users to add, change, or delete client information. An audit trail will be accompanied through a system log of user activities. As with the entire DCS network, passwords will be required to be changed every 90 days.

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## **15. Children's Services' disaster contingency plan needs improvement**

### **Finding**

As noted in two previous audits, Children's Services does not have a contingency plan to provide continuity of administrative, clerical, and operational functions in case its office and related work areas are damaged or destroyed. In addition, the department had not participated in disaster recovery testing at the Office for Information Resources' (OIR's) central data center to ensure mainframe-based computer applications can be restored. Furthermore, Children's Services did not store network back-up files at an appropriate off-site location. The potential for interrupted service and lost data increases significantly without an adequate contingency plan. In the event of an emergency or disaster, Children's Services would not be equipped to carry out day-to-day operations. No plans have been made for an alternate facility for communication or for computer system back-up.

## **Recommendation**

The Commissioner of Children's Services should ensure that the department develops and tests a contingency plan that includes, but is not limited to, relocation to a temporary site, provision for telephone and communications, and acquisition of office equipment, furniture, supplies, and forms necessary to carry out operations. The Director of Information Systems should ensure that the department also participates in disaster recovery testing at the OIR data center and establishes an off-site storage location for backup network files.

## **Management's Comment**

We concur. The department is responsible for the following three mainframe applications: ChipFins, Perpetual Inventory and OBSCIS. Disaster recovery for all three systems has been successful on the last two exercises. The last recovery exercise was performed on April 8, 1998. These are part of the OIR statewide disaster recovery plan and process.

DCS local area networks are currently under the LAN Consolidation Plan and are maintained by OIR. The servers on the LAN are backed up by OIR nightly with off-site storage on a weekly basis. The off-site storage is performed by Iron Mountain for the central office. No individual personal computer is backed up since all critical data should be stored on the servers.

A work resumption plan is not in place at this time.

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## **DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grant Module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and

- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy Statement 20. We reviewed supporting documentation and tested samples of revenue and expenditure transactions. We also reviewed the Schedule of Federal Financial Assistance.

We determined that the department does not have written policies and procedures regarding cash management activities, and that expenditure transactions are not coded to the appropriate grant at the time the initial transaction is recorded.

**16. Children's Services does not charge the appropriate grant at the time the initial transaction is recorded, and written policies and procedures have not been developed for cash management activities**

**Finding**

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues", Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grant(s) at the time the initial transaction is recorded. However, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditure to the appropriate federal grant. This reallocation process does not allow use of the accounting system to schedule reimbursement requests to avoid time lapses between drawdowns and actual disbursements of funds. During testwork on the department's three major federal programs, the following was noted:

- Title IV-E - 59 of 59 expenditures were charged to the federal grant seven to 83 days after the initial transaction was paid with state dollars.
- SSBG - 36 of 36 expenditures were charged to the federal grant 10 to 136 days after the initial transaction was paid with state dollars.
- Title IV-A - 51 of 60 expenditures (85%) were charged to the federal grant 21 to 43 days after the initial transaction was paid with state dollars.

The department is not requesting reimbursement for federal dollars in a timely manner. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures. Because of the seriousness of this lack of adequate cash management policies and procedures, a material weakness in internal controls will be reported in the 1997 Tennessee Single Audit report.

Also, management has not developed written policies for the following cash management activities:

- Procedures for requesting cash as close as is administratively possible to actual cash outlays.
- Procedures for redistributing payroll costs to the federal grant within 30 days of each month-end.
- Procedures for monitoring cash management activities.

### **Recommendation**

The Assistant Commissioner for Fiscal and Information Systems should ensure that written policies and procedures are developed and implemented for cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded and for redistributing payroll cost within 30 days of each month-end. Also, monitoring procedures should be developed to ensure the above procedures are implemented.

### **Management's Comment**

We concur. Accounting and receivables staff have used procedures and reports issued by the Department of Finance and Administration to monitor cash management activities. The Assistant Director of Fiscal Services is developing detailed flow charts of all activities performed by payables, receivables and accounting staff. Those detailed flow charts will be used to develop written fiscal policies and procedures. Cash management activities will be included in the flow chart design and analysis.

A recently developed computer program system has been tested and implemented by receivables and accounting staff. The new system automates a major portion of the transaction processing related federal cash draws. The system will download the STARS daily cash draw report each day, calculate the amount cash draw report for the current day plus any undrawn amounts from prior days reports. Balances calculated will be compared to funds available to be drawn on the DHHS Payment Management System (PMS). Reports will be provided to the user to manually request the funds from the PMS. Journal voucher batches to record the funds drawn will be entered in STARS via an interface between the draw system and STARS. A project to enhance the current program has been proposed. The project is to modify the system to permit the tracking of "Z" journal vouchers by the draw system until they are updated in STARS. Information to document each step in the processing will be recorded in a history file in the draw system for review or analysis. One of the daily reports generated will indicate the amounts to be drawn and/or amounts overdrawn. This report will be prepared after the generation of the daily draw request. Accounting staff will be able to monitor monthly the history and append files in the draw process for cash management compliance.

The payables staff does charge grants on STARS at the time of payment if charges to the grant does not require child specific eligibility. Supervisors in payables are currently reviewing the cost centers assigned to grants to ensure expenditures are being keyed into STARS appropriately. Costs that are charged to grants based on a specific child's eligibility are paid with state funds and later reallocated to grants. The complex nature of funding costs by each child from multiple grants based on different eligibility requirements mandates an extensive and comprehensive financial management system. The DCS Project Steering Committee is in the process of recommending the next phase of TN KIDS. The comprehensive financial management system will be an important component of TN KIDS. That comprehensive system will allow identification of costs to all grants prior to processing of payments in STARS. Fiscal and Information Resources staff are currently evaluating if it would be practical to develop computer programs to improve the current processing prior to the development of the TN KIDS comprehensive financial management system.

Payroll and other administrative costs are allocated by the department according to a cost allocation plan approved by DHHS. During the audit period, costs were allocated after the close of the quarter on STARS. Accounting staff are in the process of making modifications to the cost allocation schedules to quarterly calculate a rate for each cost center. The rate will be used to bill grants until the next quarterly cost allocation is completed and a new rate is calculated. Entries will then be recorded to adjust the costs charged to grants based on the calculated rate to actual costs allocated. Accounting staff have requested a payroll extract from the Payroll System for use in the cost allocation process. Information Resources staff indicate this request will be completed very soon.

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## **PRIOR AUDIT FINDINGS**

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Children's Services filed its report with the Department of Audit on December 29, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

## **RESOLVED AUDIT FINDING**

The current audit disclosed that the Department of Children's Services has corrected the previous audit finding concerning timely federal reporting for the Title IV-E foster care program.

## REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning duplicate payments to vendors, lack of formal procedures for collecting overpayments, inadequate controls over medical payments, weak controls over disbursements, untimely processing of status changes for foster care children, inadequate procedures related to funding payments with Title IV-E foster care grant funds, prompt processing of journal vouchers, untimely transfer of revenue from deferred revenue, incomplete reconciliation of the Social Security Administration trust fund accounts to accounting records, inadequate controls over computer programming and payment processing functions, inadequate data integrity and user accountability controls over the Client Operation and Review System, and inadequate disaster contingency planning. These findings have not been resolved and are repeated in the applicable sections of this report.

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## OBSERVATIONS AND COMMENTS

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### TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1997, the Department of Children's Services filed its compliance report and implementation plan on June 30, 1997.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

Department of Children's Services divisions and allotment codes:

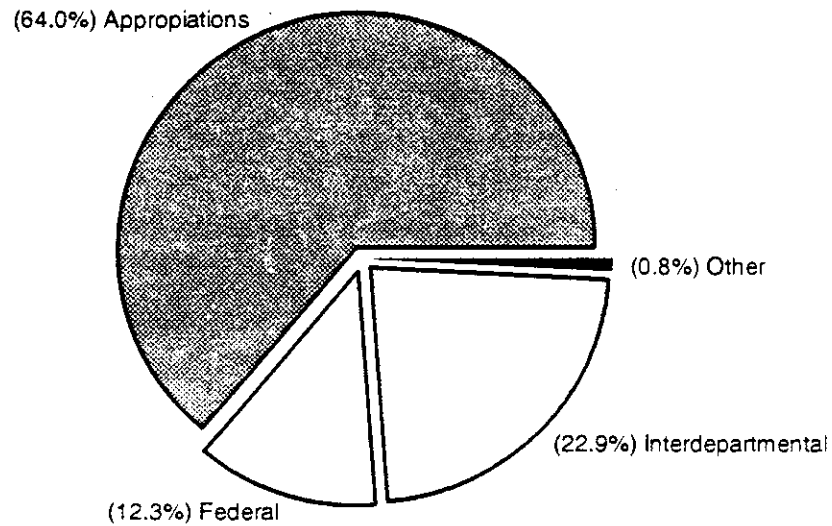
359.10	Administration
359.20	Family Support Services (Non-Custodial)
359.30	Custody Services
359.50	Child and Family Management
359.60	Wilder Youth Development Center
359.61	Taft Youth Development Center
359.62	Woodland Hills Youth Development Center
359.63	Mountain View Youth Development Center
359.65	Department of Children's Services Group Homes
359.70	Tennessee Preparatory School



## DEPARTMENT OF CHILDREN'S SERVICES

### Funding Sources

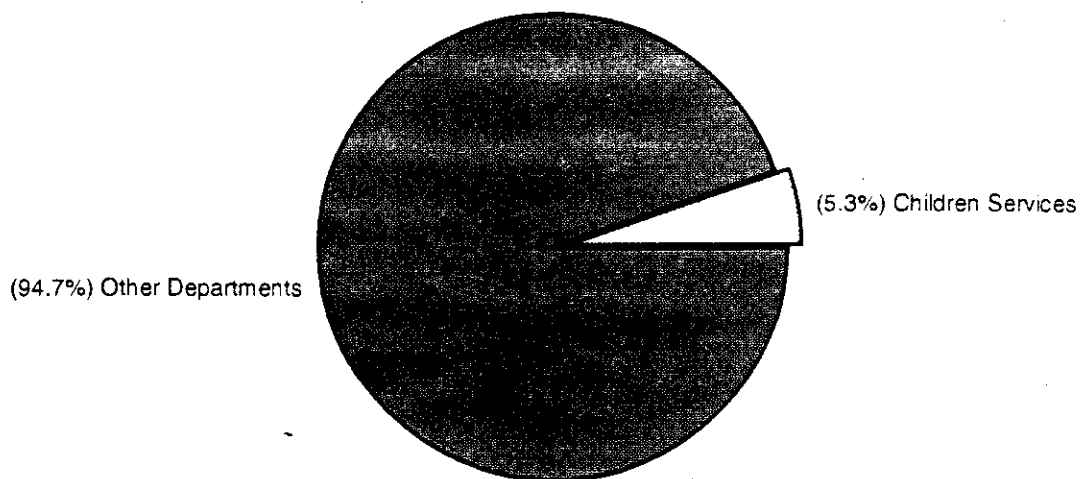
Year Ended June 30, 1997 (Unaudited)



Source: Department of Children's Services

### General Fund Expenditures

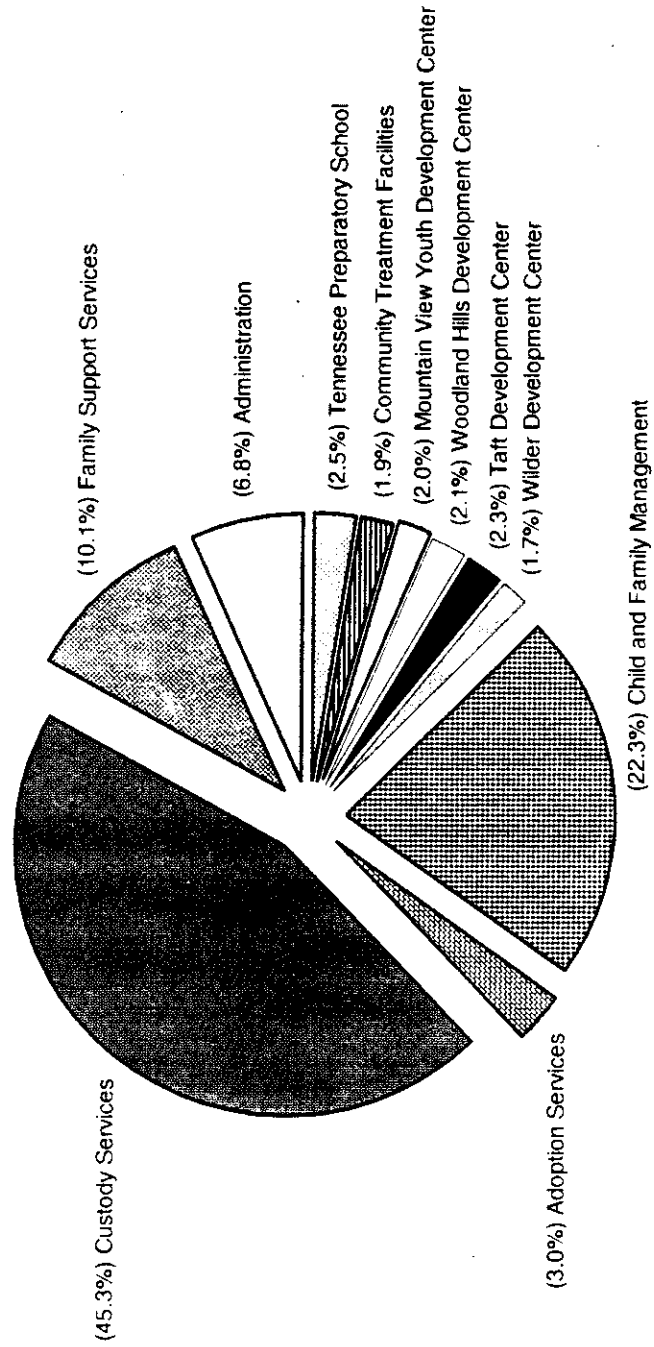
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Children's Services

# Expenditures by Allotment and Division

Year Ended June 30, 1997 (Unaudited)



Source: Department of Children's Services